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A payment adjustment in the form of an intensity allowance of one percent per year is added to the trend factor for those enrolled non-Georgia hospitals designated as disproportionate share by the Medicaid agency in the state in which the hospital is located. Effective July 1 of each year, the Department will determine which non-Georgia hospitals are so designated. The full amount of the payment adjustment is included in rates effective for dates of admission of July 1, 1990, and after. This payment adjustment shall meet the requirements of Section 1923(c)(2) of the Social Security Act.

Effective with admission dates on and after July 1, 1993, the Department will adjust inpatient payment rates by calculating reimbursable Medicaid capital costs using a minimum occupancy rate for bed-size categories as follows: 50 beds or less - 55 percent; 51 to 100 beds - 60 percent; 101 to 150 beds - 65 percent; and 150+ beds - 70 percent. Hospitals with an occupancy rate below the established minimums will have their reimbursable capital costs reduced proportionately based on the percentage difference between the actual occupancy rate and the minimum rate for the appropriate category. The actual occupancy rate will be determined from each hospital's fiscal year 1992 cost report on file with the Department. Rural hospitals with less than 100 beds will be excluded from the occupancy adjustment.

Effective for dates of admission beginning July 1, 1994, each enrolled non-Georgia hospital's fiscal period 1991 audited cost report will be used to determine its base period cost per case. This report must be for a period of at least nine months. If the 1991 audited cost report is not available, the cost report as filed by the hospital will be used initially. When the audited cost report becomes available and is reviewed, accepted, or corrected, the hospital's rate and payment will be adjusted retrospectively. The prospective rate for enrolled non-Georgia hospitals will be calculated by dividing the allowable Medicaid inpatient cost from the hospital's base year (1991) by the number of Medicaid discharges, as reported in the cost report. This cost is the base year cost less nonallowable costs as reported in the nonallowable costs questionnaire. The base period costs consist of two components. The first component

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includes inpatient operating costs. This component is inflated by an allowable trend factor (see Paragraph E). The second component consists of depreciation and interest for major movable equipment and building and fixed equipment. This component is not inflated by a trend factor. The second component is added to the inflated operating component and the total cost is divided by the number of Medicaid discharges to determine the hospital's reimbursement rate. No reimbursement is provided for return on equity costs or the cost for services of hospital-based physicians.

A payment adjustment in the form of an intensity allowance of one percent per year is added to the trend factor for those enrolled non-Georgia hospitals designated as disproportionate share by the Medicaid agency in the state in which the hospital is located. Effective July 1 of each year, the Department will determine which non-Georgia hospitals are so designated. The full amount of the payment adjustment is included in rates effective for dates of admission of July 1, 1990, and after. This payment adjustment shall meet the requirements of Section 1923(c)(2) of the Social Security Act.

Effective with admission dates on and after July 1, 1994, the Department will adjust inpatient payment rates by calculating reimbursable Medicaid capital costs using a minimum occupancy rate for bed-size categories as follows: 50 beds or less - 55 percent; 51 to 100 beds - 60 percent; 101 to 150 beds - 65 percent; and 150+ beds -70 percent. Hospitals with an occupancy rate below the established minimums will have their reimbursable capital costs reduced proportionately based on the percentage difference between the actual occupancy rate and the minimum rate for the appropriate category. The actual occupancy rate will be determined from each hospital's fiscal year 1993 cost report on file with the Department. Rural hospitals with less than 100 beds will be excluded from the occupancy adjustment.

Effective for dates of admission beginning July 1, 1995, each enrolled non-Georgia hospital's fiscal period 1992 audited cost report will be used to determine its base

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period cost per case. This report must be for a period of at least nine months. If the 1992 audited cost report is not available, the cost report as filed by the hospital will be used initially. When the audited cost report becomes available and is reviewed, accepted, or corrected, the hospital's rate and payment will be adjusted retrospectively. The prospective rate for enrolled non-Georgia hospitals will be calculated by dividing the allowable Medicaid inpatient cost from the hospital's base year (1992) by the number of Medicaid discharges, as reported in the cost report. This cost is the base year cost less nonallowable costs as reported in the nonallowable costs questionnaire. The base period costs consist of two components. The first component includes inpatient operating costs. This component is inflated by an allowable trend factor (see Paragraph E). The second component consists of depreciation and interest for major movable equipment and building and fixed equipment. This component is not inflated by a trend factor. The second component is added to the inflated operating component and the total cost is divided by the number of Medicaid discharges to determine the hospital's reimbursement rate. No reimbursement is provided for return on equity costs or the cost for services of hospital-based physicians.

A payment adjustment in the form of an intensity allowance of one percent per year is added to the trend factor for those enrolled non-Georgia hospitals designated as disproportionate share by the Medicaid agency in the state in which the hospital is located. Effective July 1 of each year, the Department will determine which non-Georgia hospitals are so designated.

The full amount of the payment adjustment is included in rates effective for dates of admission of July 1, 1990, and after. This payment adjustment shall meet the requirements of Section 1923(c)(2) of the Social Security Act.

Effective with admission dates on and after July 1, 1995, the Department will adjust inpatient payment rates by calculating reimbursable Medicaid capital costs using a

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minimum occupancy rate for bed-size categories as follows: 50 beds or less - 55 percent; 51 to 100 beds - 60 percent; 101 to 150 beds - 65 percent; and 150+ beds -70 percent. Hospitals with an occupancy rate below the established minimums will have their reimbursable capital costs reduced proportionately based on the percentage difference between the actual occupancy rate and the minimum rate for the appropriate category. The actual occupancy rate will be determined from each hospital's fiscal year 1994 cost report on file with the Department. Rural hospitals with less than 100 beds will be excluded from the occupancy adjustment.

Effective with dates of service on and after July 1, 1993, the Department will enroll and reimburse certified registered nurse anesthetists (CRNAs). CRNAs will be enrolled in and reimbursed through the Nurse Practitioner program. CRNA costs were excluded from hospitals' base year costs prior to calculating the per case rates effective on and after July 1, 1993. CRNA reimbursement through the Nurse Practitioner program is explained at Attachment 3.1-A, page 3a.1, Section 6.d.B.

Effective with payment dates on and after July 15, 1993, claims for which a third party paid at or in excess of the Medicaid per case rate in effect for the dates of admission shall not be included in the paid claims data used to establish per case rates for dates of admission on or after July 1, 1993. The paid claims data used in the initial establishment of inpatient per case rates will be used when such rates are adjusted.

D. Updated Capital Costs

Georgia hospitals which have incurred additional capital costs associated with a Certificate of Need approved capital improvement since filing their base year cost reports will have their base rates adjusted if documentation of these costs is provided to the Department through a completed survey no later than the

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date specified in the request. These documented costs, related only to buildings and fixed equipment, will be utilized to adjust the depreciation and interest component of base year costs. There will be no adjustment for depreciation and interest on major movable equipment. Costs associated with a revaluation of assets as a result of the sale or lease of a facility which occurred after November 8, 1983, will not be considered for the purpose of determining or adjusting a hospital's rate of payment.

E. Trend Factor

Effective July 1, 1991, the trend factors used to inflate base year operating costs to the reimbursement year is calculated using Data Resources inflation factors of 5.2%, 5.1%, 4.7%, 5.8% and 1.325% for calendar years 1988, 1989, 1990, 1991 and the first quarter of 1992, respectively. The 1988 factor is prorated based on the hospital's fiscal year end. This applies to enrolled Georgia and non-Georgia hospitals.

Effective July 1, 1992, the trend factors used to inflate base year operating costs to the reimbursement year is calculated using Data Resources inflation factors of 5.4%, 4.9%, 4.2%, 4.1% and 2.45% for calendar years 1989, 1990, 1991, 1992 and the second quarter of 1993, respectively. The 1989 factor is prorated based on the hospital's fiscal year end. This applies to enrolled Georgia and non-Georgia hospitals.

In addition, an intensity allowance equal to the total calculated payment adjustment percentage is added to the trend factor for disproportionate share hospitals, effective with dates of admission July 1, 1992, and after. The payment adjustment percentage is one percent (1%) per year of inflation beginning with the first full year that inflation is added. This applies to enrolled Georgia and non-Georgia disproportionate share hospitals.

Effective July 1, 1993, the trend factor used to inflate base year operating costs to the reimbursement year is calculated using the sum of Data Resources inflation factors of 5.1%, 4.7%, 3.7%, 4.9% and 2.7% for calendar

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years 1990, 1991, 1992, 1993 and the second quarter of 1994, respectively. The 1990 factor is prorated based on the hospital's fiscal year end. This applies to enrolled Georgia and non-enrolled hospitals.

In addition, an intensity allowance equal to the total calculated payment adjustment percentage is added to the trend factor for disproportionate share hospitals, effective with dates of admission July 1, 1993, and after. The payment adjustment percentage is one percent (1%) per year of inflation beginning with the first full year that inflation is added. This applies to enrolled Georgia and non-Georgia disproportionate share hospitals.

Effective July 1, 1994, the trend factor used to inflate base year operating costs to the reimbursement year is calculated using the sum of Data Resources inflation factors of 3.7%, 3.1%, 3.0%, 3.6% and 1.85% for calendar years 1991, 1992, 1993, 1994 and the second quarter of 1995, respectively. The 1991 factor is prorated based on the hospital's fiscal year end. This applies to enrolled Georgia and non-Georgia hospitals.

In addition, an intensity allowance equal to the total calculated payment adjustment percentage is added to the trend factor for disproportionate share hospitals, effective with dates of admission July 1, 1994, and after. The payment adjustment percentage is one percent (1%) per year of inflation beginning with the first full year that inflation is added. This applies to enrolled Georgia and non-Georgia disproportionate share hospitals.

Effective with dates of admission of July 1, 1994, and after, one percent per year will be added to the DRI trend factor for Georgia rural (non-MSA) hospitals with less than 100 beds.

Effective July 1, 1995, the trend factor used to inflate base year operating costs to the reimbursement year is calculated using the sum of Data Resources inflation factors of 3.6%, 3.0%, 2.5%, 3.9% and 2.0% for calendar years 1992, 1993, 1994, 1995 and the second quarter of 1996, respectively. The 1992 factor is prorated based on the hospital's fiscal year end. This applies to enrolled Georgia and non-Georgia hospitals.

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In addition, an intensity allowance equal to the total calculated payment adjustment percentage is added to the trend factor for disproportionate share hospitals, effective with dates of admission July 1, 1995, and after. The payment adjustment percentage is one percent (1%) per year of inflation beginning with the first full year that inflation is added. This applies to enrolled Georgia and non-Georgia disproportionate share hospitals.

8/15/96 Effective August 15, 1996, the trend factor used to inflate base year operating costs to the reimbursement year is calculated using the sum of Data Resources inflation factors of 2.0% (proated), 1.5%, 2.4%, 1.9% and 1.0% for calendar years 1993, 1994, 1995, 1996 and the second quarter of 1997, respectively. The 1993 factor is prorated based on the hospital's fiscal year end. This applies to enrolled Georgia hospitals.

In addition, an intensity allowance equal to the total calculated payment adjustment percentage is added to the trend factor for disproportionate share hospitals, effective with dates of admission August 15, 1996, and after. The payment adjustment percentage is one percent (1%) per year of inflation beginning with the first full year that inflation is added. This applies to enrolled Georgia hospitals.

F. Utilization Allowance

In order to discourage inappropriate increases in the utilization of inpatient services, a hospital-specific utilization allowance will be established. For each hospital, the allowance for a calendar year will be calculated as follows: The number of cases admitted during the prior state fiscal year (July 1 through June 30), determined by the Department's paid claims file as of November 15, will be adjusted by the projected change in the statewide recipient utilization for the prior state fiscal year. The recipient utilization projection will be weighted according to the various categories of eligibility. Hospitals will receive full reimbursement at their per case rates for all admissions in the calendar year up to that allowance. From 100% of this allowance, to 103% of this allowance, hospitals will be reimbursed 50% of the per case rate. For admissions beyond 103% of this allowance, hospitals will be

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reimbursed 25% of the per case rate. Effective with dates of admission of January 1, 1989, and after, all admissions to disproportionate share hospitals for deliveries, pregnancy-related diagnoses and children up to 12 months of age will not be counted toward the utilization allowance. These admissions will be paid at 100% of the per case rate.

Effective January 1, 1990, a utilization allowance will no longer be established for each hospital for each calendar year.

G. Disproportionate Share Hospitals (DSH)

Federal regulations require that methods and standards used to determine payment rates must take into account the situation of hospitals that serve a disproportionate number of low-income patients with special needs. In the month of June of each year, the Department designates enrolled Georgia hospitals as disproportionate share based upon the definition below, a review of annual disproportionate share hospital surveys, review of hospital cost reports, and the requirements of Section 1923 of the Social Security Act. On or around June 30 of each year, hospitals will be notified of their designation as disproportionate share and the effective date thereof. A provider will not be designated a disproportionate share hospital at any other time during the year. Should a hospital lose its disproportionate share designation, it must wait until the next disproportionate share hospital designation period (June) to be considered again for the designation. A hospital serving a disproportionate number of low income patients with special needs is defined as:

(1) One whose Medicaid inpatient utilization rate is at least one standard deviation above the mean Medicaid inpatient utilization rate for hospitals receiving Medicaid payments; or

(2) One which has a low-income inpatient utilization rate exceeding 25 percent; or

(3) One with total Medicaid charges for paid claims, inpatient and outpatient, exceeding 15 percent of total revenue; or

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(4) A non-State hospital with the largest number of Medicaid admissions in its Metropolitan Statistical Area; or

(5) A children's hospital; or

(6) A hospital that has been designated a Regional Perinatal Center by the Department of Human Resources; or

(7) A Georgia hospital that has been designated a Medicare rural referral center and a Medicare disproportionate share hospital provider by its fiscal intermediary; or A Georgia hospital which is a Medicare rural referral center and which has 10% or more Medicaid patient days and 30% or more Medicaid deliveries; or

(8) A State-owned and operated teaching hospital administered by the Board of Regents; or

5/15/97 (9) A public hospital with less than 100 beds located in a non-metropolitan statistical area (non-MSA) with an inpatient utilization rate of at least 1%. Inpatient utilization rate is defined as the ratio of Medicaid inpatient days to total inpatient days.

No hospital may be designated a disproportionate share hospital provider unless the hospital has at least two (2) obstetricians who have staff privileges at the hospital and who have agreed to provide obstetric services to Medicaid recipients. This requirement does not apply to a hospital of which the inpatients are predominately individuals under 18 years of age or to a hospital which did not offer non-emergency obstetric services to the general population as of December 22, 1987. In the case of a hospital located in a rural area, the term "obstetrician" includes any physician with staff privileges at the hospital to perform non-emergency obstetric procedures. These hospitals will have an intensity allowance (payment adjustment) of 1 percent per year added to the trend factor. Hospitals which have a Medicaid inpatient utilization rate at least one standard deviation above the mean statewide rate will have an

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additional payment adjustment calculated and added to the trend factor which is proportional to the percentage by which the hospital's Medicaid utilization rate exceeds one standard deviation above the mean Medicaid statewide inpatient utilization rate for hospitals receiving Medicaid payment. The additional payment adjustment will be a calculated percentage of the 1 percent per year intensity allowance mentioned above. The additional payment adjustment will be computed by subtracting the mean Medicaid statewide utilization rate plus one standard deviation from each hospital's Medicaid inpatient utilization rate. The difference will be divided by the mean Medicaid statewide utilization rate plus one standard deviation, resulting in the percentage by which the hospital's Medicaid utilization rate exceeds one standard deviation above the mean Medicaid statewide inpatient utilization rate. This percentage will be multiplied by 1 percent resulting in the additional payment adjustment percentage. The additional payment adjustment percentage will be added to the base disproportionate share hospital intensity allowance of 1 percent to calculate the increase for one year. The one year factor will be allowed for the number of full years for which inflation is allowed, i.e., if inflation is allowed for two full years. Hospitals whose Medicaid inpatient utilization rate does not exceed the mean Medicaid statewide utilization rate plus one standard deviation, will receive only the base disproportionate share hospital intensity allowance of 1 percent for each year.

Effective with DSH payment adjustments made for admissions on and after July 1, 1995, the DSH provisions below will apply.

(1) No hospital can be deemed or defined as a disproportionate share hospital unless the hospital has a Medicaid inpatient utilization rate of at least 1% in addition to at least one other established DSH criteria as outlined at Section V.G.